

Juno 2 S.r.l.

Italian Non-Performing Loan ABS



Ratings

Tranche	Rating	Size (EUR m)	% of notes	% of GBV ¹	Coupon	Final maturity
Class A	BBB+ _{SF}	204.0	77.1	21.1	6M Euribor ² + 0.6%	July 2039
Class B	NR	48.0	18.1	5.0	6M Euribor ³ + 8.0%	July 2039
Class J	NR	12.8	4.8	1.3	10% + Fix return + Variable return	July 2039

Scope's Structured Finance Ratings constitute an opinion about the relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for our [SF Rating Definitions](#).

¹ Gross book value (GBV) of the securitised portfolio at closing (EUR 968m)

² The 6M Euribor rate will be partially hedged through an interest rate cap agreement with a cap strike of 0.4% from the fourth interest payment date, 0.8% from January 2022, 1.0% from July 2022, 1.3% from January 2023, 1.5% from July 2023, 2.0% from January 2024, and 2.5% from July 2024 until January 2027. Under the agreement, the SPV receives the difference between six-month Euribor and the cap strike, following a predefined notional schedule, which is similar to the expected Class A amortisation.

³ Class B interest component is senior to class A principal repayment and capped at 8%, with the residual component deferred to the class A principal repayment.

Transaction details

Purpose	Risk transfer
Issuer	Juno 2 S.r.l.
Originator	Banca Nazionale del Lavoro S.p.A. (BNL)
Servicer	Prelios Credit Servicing S.p.A. (CF) as master and special servicer
Portfolio cut-off date	30 September 2018
Issuance date	8 February 2019
Payment frequency	Semi-annual (January and July)
Arranger	BNP Paribas

The transaction is a static cash securitisation of an Italian NPL portfolio worth around EUR 968m by gross book value. The portfolio was originated by Banca Nazionale del Lavoro S.p.A. (BNL). The pool is composed of both senior secured (57.7%) and unsecured (42.3%) loans (including junior secured loans). The loans were extended to companies (92.3%) and individuals (7.7%). Secured loans are backed by first-lien residential and non-residential properties (34.8% and 65.2% of property values, respectively) in Italy, equally distributed in the north (32.8%), centre (38.9%), and south (28.3%). The issuer acquired the portfolio as at the transfer date (30 January 2019) but is entitled to all collections received from the cut-off date (30 September 2018). Asset information reflects aggregation by loans.

The structure comprises three classes of notes with fully sequential principal amortisation: senior class A, mezzanine class B, and junior class J. The class A and B will pay a floating rate based on six-month Euribor, plus a margin of 0.6% and 8%, respectively. A portion of class B interest capped at 8% ranks senior to class A principal at closing but will be deferred if special servicer performance triggers are breached. Class J principal and interest are subordinated to the repayment of the senior and mezzanine notes.

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Related Research

[Non-Performing Loan ABS Rating Methodology](#)

[Methodology for Counterparty Risk in Structured Finance](#)

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Rating rationale (summary)

The ratings are primarily driven by the expected recovery amounts and timing of collections from the NPL portfolio. The recovery amounts and timing assumptions consider the portfolio's characteristics as well as our economic outlook for Italy and assessment of the special servicer's capabilities. The ratings are supported by the structural protection provided to the notes; the absence of equity leakage provisions; liquidity protection; and an interest rate hedging agreement.

Interest rate risk is mitigated by a hedging structure, under which the SPV receives the difference between the six-month Euribor rate and the cap strike over a pre-defined notional balance. The swap notional schedule, however, does not fully hedge the expected class A amortisation profile under Scope's class A analysis.

The ratings also address exposures to the key transaction counterparties: i) BNL, regarding representations and warranties and the eventual payments to be made by the borrowers; ii) Prelios Credit Servicing S.p.A. as servicer; iii) Securitisation Services S.p.A. as back-up servicer, monitoring agent, noteholders' representative, calculation agent and corporate servicer; iv) BNP Paribas Securities Services as account bank, paying agent, cash manager and agent bank; and v) BNP Paribas as the interest rate cap provider. We considered counterparty replacement triggers and relied on publicly available ratings and our own ratings on BNP Paribas SA (AA-/S-1+), the parent of BNP Paribas Securities Services.

We performed a specific analysis for recoveries, using different approaches for secured and unsecured exposures. For secured exposures, collections were based mostly on the latest property appraisal values, which were stressed to account for liquidity and market value risks, while recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceeding, the court issuing the proceeding, and the stage of the proceeding as of the cut-off date. For unsecured exposures, we used historical line-by-line market-wide recovery data on defaulted loans between 2000 and 2017 and considered the special servicer's capabilities when calibrating lifetime recoveries, also considering that unsecured borrowers were classified as defaulted for a weighted average of 4.9 years as of the 30 September 2018 cut-off date.

Rating drivers and mitigants

Positive rating drivers

Material portion of proceedings in advanced stages. Around 35.4% of the secured loans are in the auction phase and 18.1% in the court distribution phase. This results in a lower expected time for collections than for loans in the initial phases of legal proceedings.

Hedging structure. Interest rate risk on the class A is partially hedged through an interest rate cap agreement with a 0.4% cap strike from the fourth interest payment date, which gradually increases to 2.5% until January 2027.

Court distribution. The courts tasked with the secured legal proceedings are mainly grouped with the faster courts, i.e. groups 2 and 3 with 50% and 25%, respectively (we classify courts over seven groups; the lower the group number, the faster the court). This results in a lower expected time for collections than for loans in higher court groups.

Full and drive-by valuations. 56.8% of the pool's first-lien collateral valuations are either full or drive-by types. These appraisals are generally more accurate than desktop or CTU valuations

Upside rating-change drivers

Servicer outperformance. Consistent servicer outperformance in terms of recovery timing and the total amount of collections could positively impact the ratings. The weighted average time until portfolio collections are complete will be 4.8 years, according to the servicer's business plan (starting from the pool cut-off date). This is about 10 months faster than the recovery weighted timing vector applied in the analysis.

Negative rating drivers and mitigants

High share of large unsecured exposures. 34.4% of the unsecured loans have an individual exposure of at least EUR 3m by gross book value. Larger unsecured exposures tend to have lower recoveries.

Liquidity protection. A cash reserve equal to 4.0% of the class A notes provides liquidity protection to senior noteholders, covering senior expenses and interest on the class A notes for about only two payment dates, as of closing.

Borrower concentration. The borrower concentration in the portfolio is above average compared to peer transactions we have rated. The 10 and 100 largest borrower exposures respectively account for 19% and 56.2% of gross book value. This may expose the transaction to increased performance volatility, depending on the recoveries from those few large borrowers.

Downside rating-change drivers

Servicer underperformance. Servicer performance which falls short of our base case collection amounts and timing assumptions could negatively impact the ratings.

Fragile economic growth. The trajectory of Italy's public debt is of concern given its weak medium-term growth potential of 0.75%, the government's plans to reverse reforms, raise spending, cut taxes.

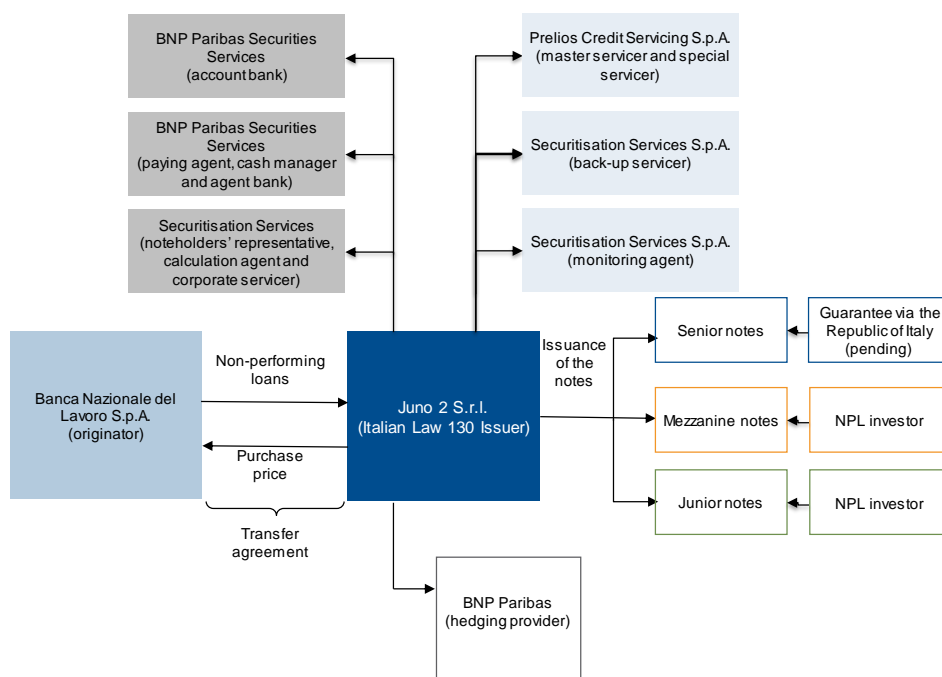
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1. Transaction summary

The transaction structure comprises three tranches of sequential, principal-amortising notes, an amortising liquidity reserve equal to 4.0% of the total class A outstanding balance, and an interest rate cap agreement.

Figure 1: Transaction diagram:



Sources: Transaction documents and Scope Ratings.

We adjusted the pool's gross book value using information on collections and sold properties since the 30 September 2018 cut-off date. The analysis excluded portfolio loans which we assumed to be closed, based on collections already received and cash-in-court to be received. Collateral connected with these positions was also removed.

The adjustments reduced the portfolio's gross book value from EUR 968m to EUR 874m. Collections received since the cut-off date are assumed to be cash available at closing, while cash-in-court is assumed to be received no earlier than one year after the closing date.

Our analysis is performed on a loan-by-loan level, considering all information provided to us in the context of the transaction or publicly available information. Loans are defined as 'secured' if they are guaranteed by first-lien mortgages, otherwise they are classified as 'unsecured'.

Figure 2 shows the main characteristics of the preliminary portfolio which we analysed, with the details of the secured and unsecured portions.

Figure 2: Key portfolio stratifications (30 September 2018 cut-off)

	All	Secured	Junior liens	Unsecured
Number of loans	3,609	1,512	90	2,007
Number of borrowers				
Gross book value (EUR m)	968,202,660	558,351,717	29,517,249	380,333,693
Percentage of gross book value		57.7%	3.0%	39.3%
Weighted average seasoning (years)	4.4	4.1		4.9
Sum of collateral appraisal values (EUR m)		740,555,925	53,781,540	
Borrower type				
Corporate	92.3%	51.1%	2.9%	38.3%
Individual	7.7%	6.6%	0.2%	1.0%
Primary procedure*				
Bankrupt borrower	69.9%	29.5%	2.0%	38.3%
Non-bankrupt borrower	30.1%	28.1%	1.0%	1.0%
Stage of procedure (secured loans)				
Initial		29.5%	26.5%	
Court-appointed valuation (CTU)		17.0%	5.5%	
Auction		35.4%	31.5%	
Distribution		18.1%	36.5%	
Geography (% of collateral value)				
North	34.3%	32.8%	54.7%	
Centre	37.3%	38.9%	14.8%	
South and islands	28.4%	28.3%	30.4%	
Borrower concentration				
Top 10	19.0%			
Top 100	56.2%			
Property type (% of collateral value)				
Residential		34.8%	15.7%	
Non-residential		65.2%	84.3%	

* Some loans have several types of ongoing procedures. The distribution reflects i) our assumptions on the main procedure type; and ii) our classification of procedures that have not been initiated with reference to the borrowers.

2. Macroeconomic environment

Sovereign downgrade of Italy to BBB+ with a Stable Outlook

Our sovereign rating on Italy was downgraded on 7 December 2018 to BBB+/Stable from A-/Negative, driven by the lack of a coherent reform agenda to address structural weaknesses and debt sustainability. Italy's BBB+ sovereign rating remains, however, underpinned by its euro area membership and likelihood of multilateral support in severe crisis scenarios, a track record of primary surpluses and a favourable debt structure, a large, diversified economy (with nominal GDP of EUR 1.8trn in 2018), and moderate non-financial private debt (of 156% of GDP as of Q2 2018).

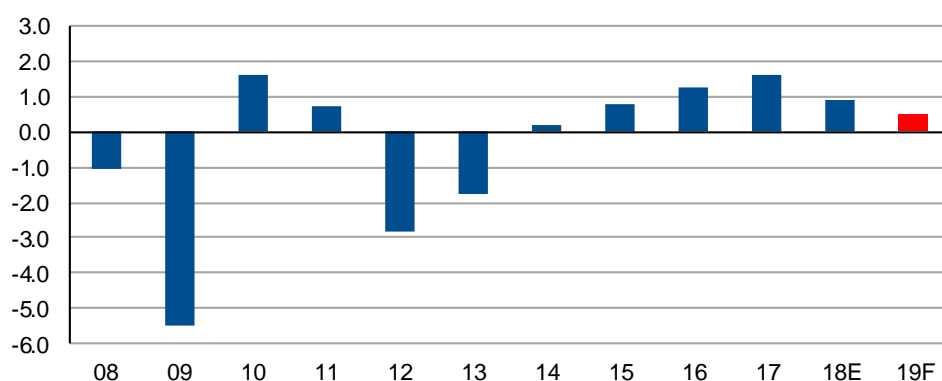
The Stable Outlook considers these credit strengths in addition to recent key signs of moderation in the Italian government's policies. We note that Italy and Europe continue to seek a compromise on Italy's violations of EU budget rules. In our opinion, the inadequate convergence around a sustainable reform programme that balances the government's core pro-growth agenda with greater fiscal discipline, or a pronounced weakening in Italy's debt sustainability, could be grounds for a further downside revision to the sovereign outlook and/or ratings.

Risks associated with a slowing economy

We note the risk associated with a slowing Italian economy, evidenced by real GDP growth softening to -0.1% QoQ in Q3 2018, from 0.2% in Q2 2018, equivalent to YoY growth of 0.7% – even though temporary factors played a role during Q3. Last October,

unemployment edged up to 10.6%, from the low of 10.1% as of August 2018. Recent economic data speak to economic risks going forward without a rapid resolution of present economic and policy uncertainties, with the risk of a technical recession. We project economic growth of just 0.5% in 2019 (Figure 3).

Figure 3: Annual real GDP growth, Italy



Sources: ISTAT; calculations by Scope Ratings

Italian 10-year spreads stand at 270 bps, down from recent peaks but higher from lows of about 115 bps in late April. Even so, despite elevated spreads, current nominal yields are still much lower than the debt-crisis peaks, at 2.95% on 10-year BTPs. Nonetheless, higher government yields have increased borrowing costs for Italian companies: 3.5% on new fixed-rate debt for first-time issuers in Q3 2018 from 1.8% in Q1 2018, according to the Bank of Italy.

Tepid long-term growth outlook

Italy's long-term growth picture is weak. We estimate medium-run growth potential at 0.75%. Population dynamics are one factor: The working-age population declined on average by 0.5% per annum from 2010-17 and is foreseen to continue to fall by 0.5% each year from 2018 to 2023, according to United Nations projections. Our medium-run growth estimate assumes modest contributions from rising labour force participation and higher employment over time (thereby reducing slack in the labour market), but labour productivity growth of just above 0%.

Debt sustainability concern

In this context, assuming wider budget deficits of 2.9% of GDP over 2019-21, lower economic growth and a continuation of current market financing rates, public debt-to-GDP would increase modestly to 134.9% by 2021 (from 131.2% in 2017).

NPLs have reduced, though banking sector risks have increased

Italian banks' stock of non-performing loans has been cut to 10.2% of total loans as of Q2 2018, compared with 17% during the 2015 peak, supported by Italian initiatives like the Guarantee on Securitisation of Bank Non-Performing Loans (GACS). Still, the banking sector's common equity tier 1 capital ratios slipped to 13.2% of risk-weighted assets in Q2 2018, 60bps under the Q4 2017 levels. Significant actions are still needed to improve insolvency and debt enforcement procedures, facilitate bank rationalisation and consolidation, and make timely and consistent use of the resolution framework.

3. Portfolio analysis

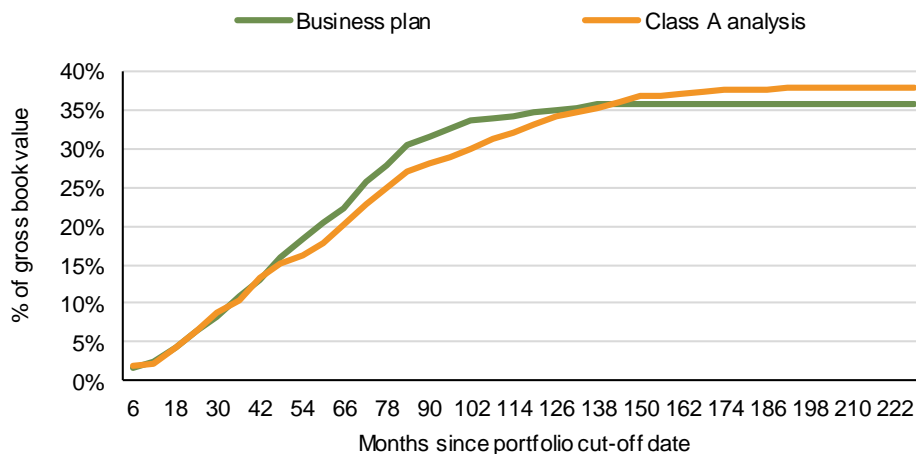
Rating-conditional recovery assumptions

Figure 4 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with those from the servicer business plan. We applied rating-conditional recovery rates (i.e. assumed expected recoveries decrease as the instrument's target rating increases). These assumptions are derived by blending secured and unsecured recovery expectations. We applied different analytical frameworks to the secured and unsecured segments to derive recoveries.

Our assumptions reflect significant recovery timing stresses

For the class A notes analysis, we assumed a gross recovery rate¹ of 37.9% over a weighted average life of 5.6 years. By segment, we assumed a gross recovery rate of 59.8% for the secured portfolio and 8.3% for the unsecured portfolio.

Figure 4: Business plan's gross cumulative recoveries vs Scope's assumptions²



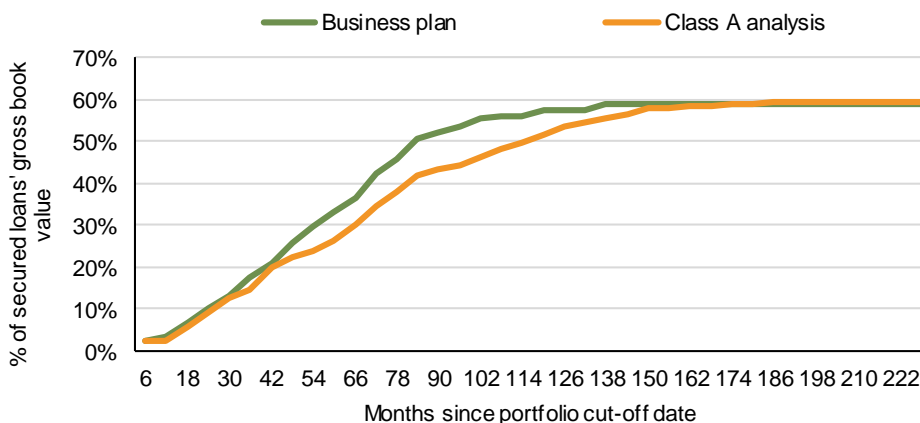
Sources: Special servicer business plan and Scope Ratings

Valuation haircuts mainly address forward-looking market value and liquidity risks

3.1. Analysis of secured portfolio segment

Figure 5 shows our lifetime gross collections vectors for the secured³ portfolio segment compared to those from the servicer business plan. Our analytical approach consists mainly of estimating the security's current value based on property appraisals and then applying security-value haircuts to capture forward-looking market value and liquidity risks. Recovery timing assumptions are mainly determined by the efficiency of the assigned court (based on historical data on the length of the proceedings), the type of legal proceeding and the stage of the proceeding. Our analysis also captures concentration risk, the servicer business plan, and available workout options.

Figure 5: Business plan's gross cumulative recoveries for secured loans vs Scope's assumptions⁴



Sources: Special servicer business plan and Scope Ratings

¹ The reported recovery rate includes ad interim collections (collections since the cut-off date as of January 2019) and cash-in-court amounts.

² The recovery rates include ad interim collections and cash-in-court amounts, which enables a direct comparison between the figures in our analysis and the servicer business plan. In addition, the business plan already incorporates costs of up to 12% for secured positions in bankruptcy proceedings.

³ We define secured loans as those guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis.

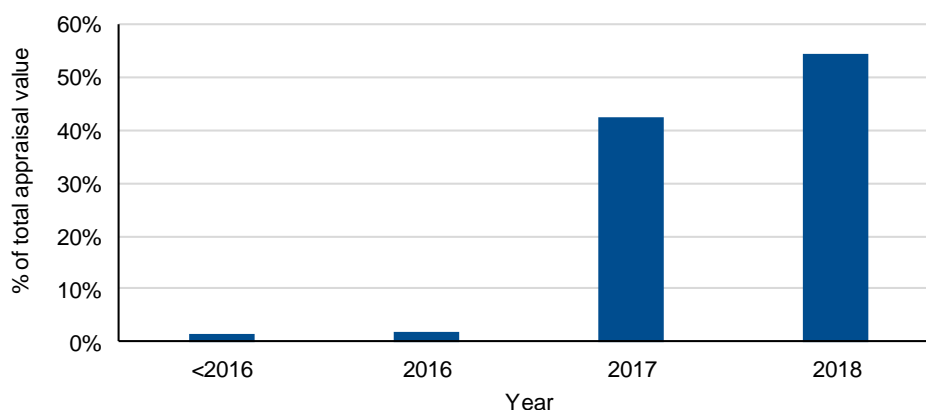
⁴ The recovery rate calculated includes ad interim collections and cash-in-court amounts.

Positive credit given to the quality of property appraisals

3.1.1. Appraisal analysis

We relied on line-by-line property market value appraisals. Most of the valuations are recent, i.e. conducted between 2017 and 2018. We indexed seasoned valuations using a variety of regional price indices. Indexation has a marginal impact on this NPL portfolio because property prices have remained fairly flat since 2015.

Figure 6: Collateral valuation dates



Source: Transaction data tape

We view positively that 51.6%⁵ of the portfolio's collateral appraisals are either full or drive-by valuations. The remainder is mainly composed of desktop (22.5%), CTU (9.5%), and prices derived from the last auctions (7.0%), to which we applied rating-conditional haircuts ranging from 10% to 5%, reflecting our view of their lower levels of quality and accuracy due to the simplified procedures.

The values of the sold properties total EUR 84.7m (only first-lien collateral sold starting from 2015). We have assumed that these sales generated EUR 61.8m of cash collections or cash-in-court positions. Not all property sale amounts were allocated to the issuer as: i) collections are capped on a line-by-line basis at the minimum of the outstanding gross book value and mortgage value; and ii) some collections were already reported as ad interim.

Figure 7: Portfolio appraisal types and Scope's transaction-specific valuation haircut assumptions

	Percentage of collateral value	Class A analysis haircut
Full	3.8%	0.0%
Drive-by	47.8%	0.0%
Desktop	22.5%	5.2%
CTU/judicial valuation	16.5%	10.3%
Other	0.2%	5.2%
Sold properties	9.2%	0.0%

Sources: Transaction data tape; calculations and/or assumptions by Scope Ratings

Moderate market downturn risk

3.1.2. Property market value assumptions

Figure 8 details our assumptions about property price changes over the transaction's life when applying rating-conditional stresses for the class A notes analysis. These assumptions are i) specific to the transaction and region; ii) based on an analysis of

⁵ 56.8% for the remaining first-lien collateral, i.e. excluding sold properties.

historical property price volatility; and iii) based on fundamental metrics relating to property affordability, property profitability, private sector indebtedness, the credit cycle, population dynamics and long-term macroeconomic performance.

Figure 8: Collateral location and Scope's transaction-specific price change assumptions

	North						Centre			South			Islands	
Region	Milan	Turin	Genoa	Bologna	Venice	Others	Rome	Florence	Others	Naples	Bari	Others	Metropolitan	Rest
Class A analysis	-6.5	-6.5	-7.5	-6.5	-10.5	-11.5	-9.0	-11.5	-10.0	-9.0	-9.0	-14.0	-12.5	-14.0
Portfolio share (%)	2.8	1.3	0.5	1.3	1.4	25.6	21.7	2.1	15.2	2.0	3.6	11.7	5.1	5.9

High NPL collateral liquidity and obsolescence risk

3.1.3. Collateral liquidity risk

At times of severe economic stress during which NPLs typically accumulate, tight financing conditions and/or restricted access to capital markets drive liquidity risk. During recovery and expansionary phases of the cycle, liquidity risk may persist, mainly due to information asymmetries and collateral obsolescence, the latter primarily affecting industrial properties.

Asset liquidity risk is captured through additional fire-sale haircuts applied to collateral valuations. Figure 9 below shows the rating-conditional haircuts applied for the class A note analysis. These assumptions are based on historical distressed property sales data provided by the servicer and reflect our view that non-residential properties tend to be less liquid, resulting in higher distressed-sale discounts.

Non-residential collateral represents 60% of the collateral in the pool, which is higher than in peer transactions.

Figure 9: Scope's transaction-specific fire-sale discount assumptions

Property types	Percentage of collateral value	Class A analysis haircut
Sold properties	9.2%	N/A
Residential	30.8%	25.8%
Non-residential	60.0%	31.0%

Above-average borrower concentration risk

3.1.4. Concentration risk

We addressed borrower concentration risk by applying a 11.7% rating-conditional recovery haircut to the 10 largest borrowers for the class A notes analysis. The largest 10 and 100 borrowers account for 19.0% and 56.2% of the portfolio's gross book value, respectively, which is significantly above average compared to peer transactions we have rated.

We address potential residual claims after security enforcement

3.1.5. Residual claims after security enforcement

A secured creditor may initiate enforcement actions against a debtor despite the closure of an enforcement action concerning the mortgaged property. Secured creditors generally rank equally with unsecured creditors for amounts that have not been satisfied with the security's enforcement. The creditor's right to recover its claim, whether secured or unsecured, arises with an enforceable title (i.e. a judgment or an agreement signed before a public notary).

No credit to residual claims from corporate borrowers

For corporate loans, we gave no credit to potential further recoveries on residual claims after the security has been enforced. This is due to three practical limitations: Firstly,

unsecured recoveries tend to be binary with a high probability of zero recoveries and a low probability of 100% recoveries. This implies that when secured creditors are not fully satisfied after the security's enforcement, expected recoveries for unsecured creditors will be close to zero⁶. Secondly, special servicers are generally less incentivised to pursue alternative enforcement actions, given that foreclosure proceedings are more cost-efficient. Lastly, in a bankruptcy proceeding the receiver will decide to close the proceedings after a prudential amount of time, setting a practical limitation on any potential recovery upside.

Partial credit to residual claims from individuals

We gave credit to residual claims on 80% of the loans to individuals. This is because if the borrower is an individual, the elapsed time after a default may have a positive impact. An individual may, for example, find new sources of income over time and become solvent again.

3.1.6. Tribunal efficiency

We applied line-by-line time-to-recovery assumptions considering the court in charge of the proceedings, the type of legal proceeding (i.e. bankruptcy or non-bankruptcy), and the current stage of the proceeding.

High share of efficient tribunals

The total length of the recovery processes is mainly determined by the efficiency of the assigned court and the type of legal proceeding. To reflect this, we grouped Italian courts into seven categories, based on public data on the average length of bankruptcy and foreclosure proceedings between 2014 and 2016, as shown in Figure 10 below. Most courts are concentrated within groups 2 to 3, which are reasonably distributed across all Italian regions. The highest concentration is in court group 2 (see Figures 14 and 15 for more details regarding the top courts and the concentration in court groups).

For the class A notes analysis, we applied rating-conditional stresses to both bankruptcy and non-bankruptcy procedures (2.3 years and 1.2 years were respectively added to the total legal procedures' length).

Figure 10: Total length of the recovery process by court group in years (Scope's assumptions)

Court group	Bankruptcy proceedings	Non-bankruptcy proceedings	Percentage of courts*
1	4	2	1.4%
2	6	3	50.0%
3	8	4	25.0%
4	10	5	12.8%
5	12	6	8.5%
6	14	7	0.9%
7	18	9	1.3%

* Percentages incorporate our assumptions with reference to courts not included in available information.

3.2. Analysis of unsecured portfolio segment

Figure 11 shows our gross collections vectors for the unsecured⁷ portfolio segment compared to those from the servicer business plan. Our base case recovery amount and timing assumptions were based on loan-by-loan data with recoveries for different types of

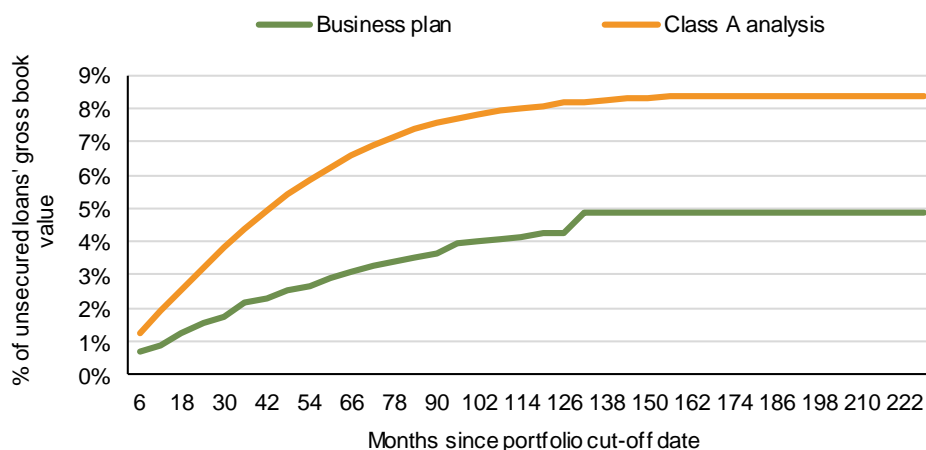
Unsecured portfolio analysis is based on statistical data

⁶ Conversely, in the unlikely scenario that secured creditors are fully satisfied after the enforcement of the security, expected recoveries for unsecured creditors could be close to 100%.

⁷ We define unsecured loans as those not guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis and as outlined in the 'transaction summary' section.

unsecured loans. For the class A notes analysis, we applied a stressed recovery rate of 8.3%. This rate did not align strongly with the servicer's recovery curve, in part because our classifications for secured and unsecured loans are different. Our assumptions for unsecured exposures consider the nature of the recovery procedure; bankruptcy proceedings are generally slower and typically result in lower recoveries than non-bankruptcy proceedings. The assumptions are calibrated to reflect that unsecured borrowers in the portfolio are classified as defaulted for a weighted average of 4.9 years as of closing.

Figure 11: Business plan's unsecured⁸ loan gross cumulative recoveries vs Scope's assumptions⁹



Sources: Special servicer's business plan and Scope Ratings

4. Portfolio characteristics

Further detail on key portfolio characteristics as of 30 September 2018 is provided below. Percentage figures refer to gross book value, unless otherwise stated.

4.1. Eligible loans

The representations and warranties on the receivables provided by the originators are generally aligned with those of peer transactions we rate, and include the following:

- All loans are denominated in euros;
- All loans agreements are governed by Italian law;
- Borrowers have been reported by the originator as defaulted (in *sofferenza*) to the Italian Credit Bureau (Centrale Rischi) of the Bank of Italy as of the closing date;
- Loans secured by mortgages are backed by real estate assets located in Italy;
- Borrowers are not employees, managers or directors of the originator;
- All receivables are validly transferable without any limitations; and
- All receivables are free from any encumbrances.

4.2. Detailed stratifications

4.2.1. Borrower type

Corporates and individuals represent 92.3% and 7.7% of the pool, respectively. The share of individual borrowers is below average compared with peer transactions we have rated. We view positively that most of the individuals are secured with first-lien collateral

Customary eligibility criteria

Borrower and loan compositions are of average quality

⁸ The comparison considers unsecured and junior secured loans as per the servicer business plan.

⁹ The recovery rate calculated includes ad interim collections amounts.

(6.6%). Expected secured and unsecured recoveries tend to be higher for individuals, due to the smaller average tickets and tendency for secured positions to be backed by residential properties, which are relatively more liquid. In addition, we give partial credit to residual claims from individuals after security enforcement, as discussed in the previous section.

Relative to peer transactions, the portfolio has an above-average amount of first-lien secured loans (57.7%) and a moderate amount of junior-lien secured loans (3.0%). We have assumed similar recovery proceeds for both junior-lien secured loans and unsecured claims in the absence of detailed information on the outstanding balance of loans backed by the external senior liens.

Figure 12: Borrower type

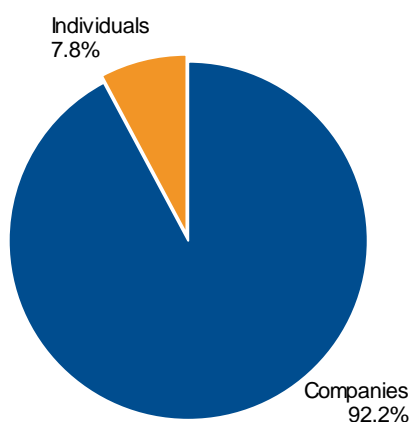
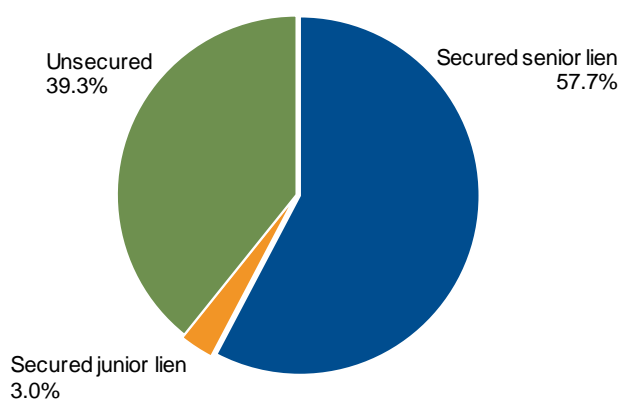


Figure 13: Loan type



Sources: Transaction data tape; calculations by Scope Ratings

Geographic diversification over Italy

4.2.2. Geographical distribution

The portfolio is almost equally distributed between northern (32.8%), central (38.9%), and southern (28.3%) Italian regions.

The high concentration in southern and central regions reflects negatively on our market value decline assumptions. This would also normally have a negative impact on recovery timing, as southern and central regions skew towards less efficient court groups relative to the Italian average (see section 3.1.6. for our tribunal efficiency assumptions). However, these assumptions do not apply as the collateral itself is concentrated in the most efficient court groups (Figure 15).

Figure 14: First-lien collateral location

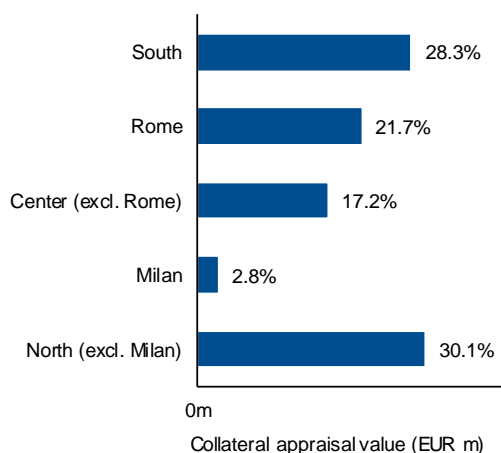
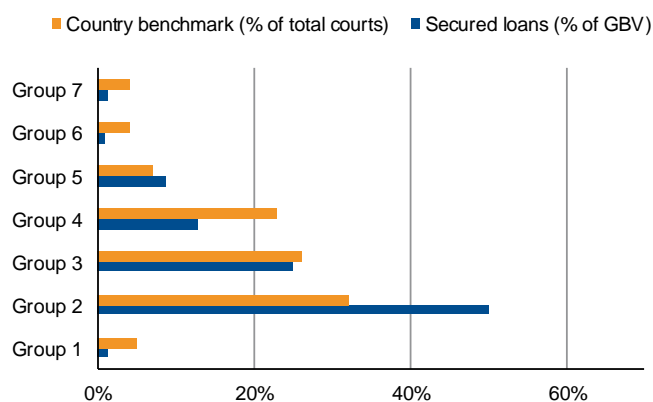


Figure 15: Court group distribution of secured loans



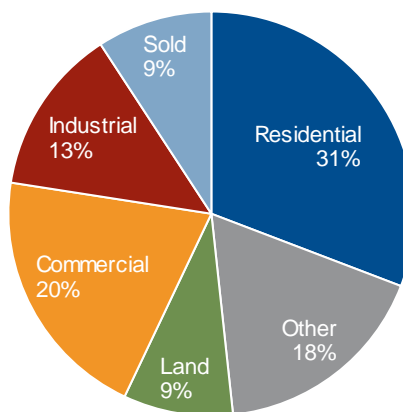
Sources: Transaction data tape; calculations by Scope Ratings

Higher liquidity stresses applied to non-residential properties

4.2.3. Collateral type

The portfolio's first-lien collateral is composed of residential (30.8%), land (8.7%), commercial (20.4%), industrial (13.3%) and other (17,5%) assets including sold properties (9.2%).

Figure 16: Distribution by collateral type



Sources: Transaction data tape; calculations by Scope Ratings

Recovery rate assumptions reflect portfolio's LTV distribution

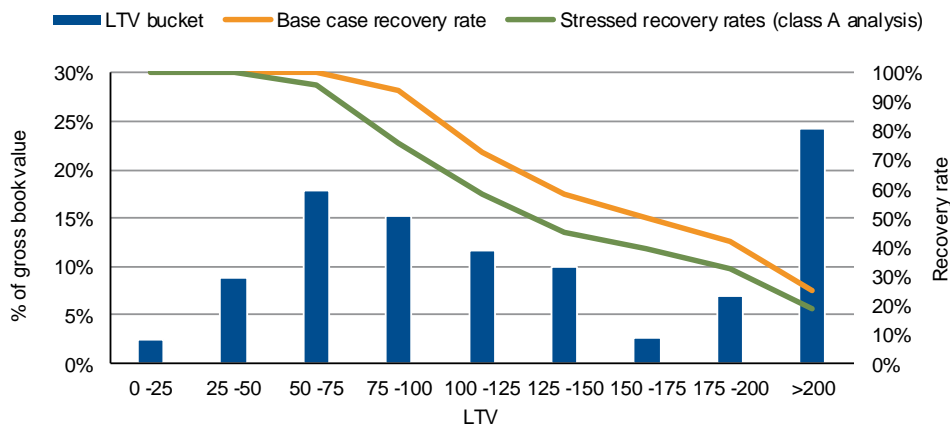
4.2.4. Collateral valuations and Scope's specific recovery rate assumptions

Figure 17 shows the secured loans' distribution by loan-to-value (LTV) bucket as well as our recovery rate assumptions for each LTV bucket (under our rating-conditional stresses applied for the class A notes analysis). This results in a weighted average recovery rate under a class A rating-conditional stress of 57.9% for the secured loans¹⁰.

All else being equal (e.g. for two portfolios with equivalent LTV ratios on an aggregated basis), collateral is less beneficial if its value is skewed towards low loan exposures. This is because, on a loan-by-loan basis, recovery proceeds are capped by the minimum of the loan's gross book value and mortgage value. This explains why recovery rates flatten for low LTV buckets.

¹⁰ The calculated recovery rate excludes ad interim collections and estimated cash-in-court amounts. The recovery rate is calculated on the adjusted pool as explained under the 'transaction summary' section.

Figure 17: Secured loans' distribution by LTV and Scope's transaction-specific secured recovery rate assumptions per the class A analysis



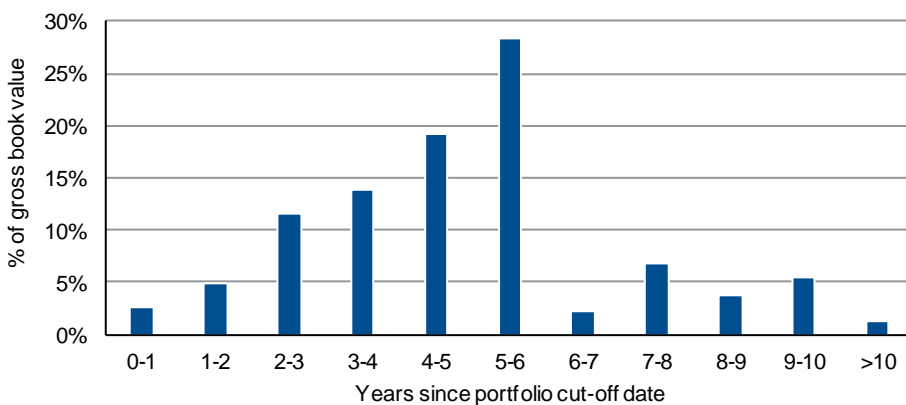
Sources: Transaction data tape; calculations by Scope Ratings

Ageing of unsecured portfolio reduces expected recoveries

4.2.5. Loan seasoning

The weighted average time between default and the closing date is around 4.9 years for unsecured exposures. The pool's ageing reduces the expected recoverable amount of unsecured loans. However, about half of the unsecured exposures are not highly seasoned, having had defaulted less than five years after the closing date.

Figure 18: Unsecured portfolio seasoning distribution as of cut-off date



Sources: Transaction data tape; calculations by Scope Ratings

4.2.6. Borrower status

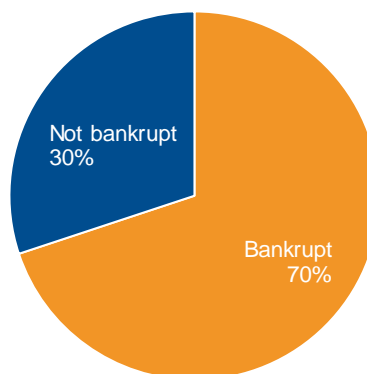
Figure 19 below shows our assumptions regarding the main legal proceedings for each borrower (one borrower can have several), based on the transaction's data tape. Around one-fifth of the loans (18.1%) has had no legal proceeding to date. Of these loans, we assumed bankruptcy processes for loans connected to companies and foreclosures for loans to individuals. This resulted in a higher share of bankruptcies than the average of NPL transactions we have rated. However, the main share of bankruptcies (40.3%) are coming from unsecured and junior secured loans. Senior secured loans contribute 29.5% to overall bankruptcies and the remaining share of 28.1% (total of 57.7% senior secured loans) are in a foreclosure procedure, which leads to a shorter weighted average recovery timing relative to Scope-rated peer transactions.

Bankruptcies result in lower recoveries than non-bankruptcy proceedings

Bankruptcies are generally more complex, lengthy and costly than non-bankruptcy processes. Bankruptcies also result in lower expected recoveries for unsecured

exposures, given the focus on liquidating assets in lieu of encouraging borrowers to remit payments.

Figure 19: Borrower status assumptions¹¹



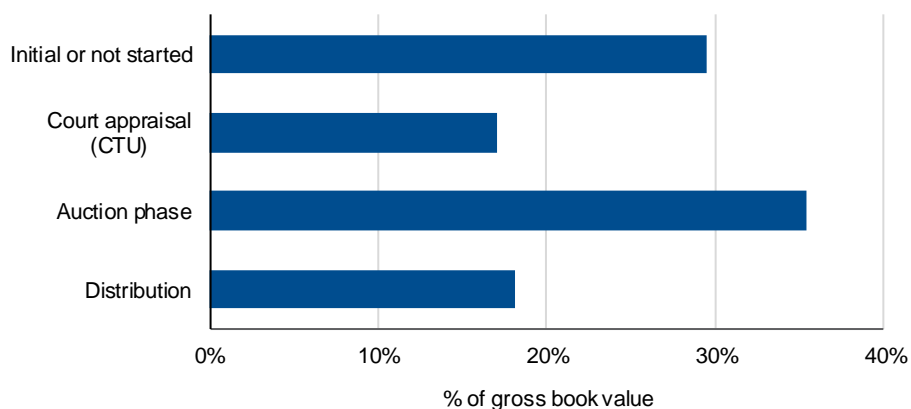
Sources: Transaction data tape; calculations by Scope Ratings

Proceedings in initial stages drive relatively long recovery timing assumptions

4.2.7. Recovery stage of secured exposures

A large portion of the secured loans is in advanced stages of proceedings. This partly explains the relatively short expected weighted average life of portfolio collections. Figure 20 below shows the stage of legal proceedings in relation to secured loans.

Figure 20: Secured recovery stage by borrower status



Sources: Transaction data tape; calculations by Scope Ratings

5. Key structural features

5.1. Combined priority of payments

The issuer's available funds (i.e. collection amounts received from the portfolio, the cash reserve, and payments received under the interest rate cap agreement) will be used in the following simplified order of priority:

1. Servicer fees and other issuer counterparty fees, taxes and transaction expenses
2. Interest on the limited-recourse loan
3. GACS premium, provided the GACS guarantee is in place
4. Replenishment of recovery-expense reserve
5. Interest on class A notes
6. Any other amounts payable under the GACS guarantee

¹¹ The reported share of bankruptcies includes loans (18.1% of gross book value) for which no procedure has been started to date.

7. Cash reserve replenishment
8. Principal on the limited-recourse loan
9. Interest on class B notes (capped at 8.0%) provided no subordination trigger is breached
10. Principal on class A notes
11. Deferred interest component of class B notes (junior to the applied class B interest cap), and upon a breach of a subordination trigger, the full amount of class B interest
12. Principal on class B and servicer mezzanine fees
13. Interest on class J notes
14. Principal on class J notes and servicer junior fees
15. Any residual amount as class J variable return

Full class B interest deferral triggers in line with peer average

Class B interest payments will be fully deferred if i) the cumulative collection ratio¹² falls below 85% of the servicer's business plan targets; or ii) the present value cumulative profitability ratio¹³ falls below 85%. These trigger levels protecting the class A notes are in the average band relative to peer transactions we rate as of February 2019.

Under the recovery stresses applied for the class A notes analysis, we assumed that the trigger would never be breached, therefore not resulting in any benefit for class A noteholders. If at any time during the transaction's life none of the triggers are breached, all class B interest amounts due and unpaid at the preceding payment dates will be paid senior to class A principal.

Scope's ratings do not address the GACS guarantee

The GACS guarantee ensures timely payment of interest and the ultimate payment of principal by the final maturity of the class A notes. Our rating on the class A notes does not give credit to the GACS guarantee but considers the potential cost (i.e. the GACS premium) if the guarantee is added to the structure.

Non-timely class A interest payment would trigger accelerated waterfall

Non-timely payment of interest on the senior notes (implying no GACS guarantee is in place), among other customary events such as the issuer's unlawfulness, would accelerate the repayment of class A through the full subordination of class B payments.

5.2. Servicing fee structure and alignment of interests

5.2.1. Servicing structure

Prelios Credit Servicing will perform the servicing activities (portfolio administration, collection/recovery of receivables as well as the management of legal proceedings) and will be monitored by the monitoring agent, Securitisation Services. Securitisation Services has also been appointed as back-up servicer.

5.2.2. Servicing fees

The servicing fee structure links the portfolio's performance with the level of fees received by the servicer, which mitigates potential conflicts of interest between the servicer and the noteholders.

Servicing will be carried out via the platform acquired from the originator

Alignment of servicer and noteholder interests

The servicer is entitled to an annual base fee and a performance fee. The annual base fee is calculated as a percentage of the outstanding portfolio's gross book value. The performance fee is calculated as a percentage of net collections. Servicer fees are calculated and payable at each payment date.

¹² 'Cumulative collection ratio' is defined as the ratio between: i) the cumulative gross collections since the cut-off date; and ii) the gross expected aggregated collections. Net collections are the difference between gross collections and recovery expenses and servicing fees.

¹³ 'Present value cumulative profitability ratio' is defined as the ratio between: i) the sum of the present value (calculated using an annual rate of 4%) of the net collections for all receivables relating to closed positions (relative to an exhausted debt relationship, i.e. either having been collected in full or sold or written off for any other reason); and ii) the sum of the target price (based on the servicer's initial portfolio base case scenario in the business plan) of all receivables relating to closed positions.

Our analysis assumed an average performance fee for secured and unsecured loans, based on the transaction's documentation, considering the portfolio distribution by gross book value buckets.

In a case of underperformance, a portion of the fees will be paid on a mezzanine and junior position in the priority of payments and a haircut applied on the fees. The servicer is therefore incentivised to maximise recoveries and comply with the initial business plan.

Monitoring function protects noteholders' interests

5.2.3. Servicer monitoring

An overview of the servicer's activities and calculations, prepared by the monitoring agent (Securitisation Services S.p.A.), mitigates operational risks and moral hazard that could negatively impact noteholder interests. This risk is further mitigated by a discretionary servicer termination event should the servicer underperform.

Under the servicing agreement, the servicer is responsible for the servicing, administration, and collection of receivables as well as the management of legal proceedings. The monitoring agent will verify the calculations of key performance ratios and amounts payable by the issuer, as well as perform controls based on a random sample of loans.

The monitoring agent will report to a committee that represents the interests of both junior and mezzanine noteholders. The committee can authorise the revocation and replacement of the special servicer upon a servicer termination event. The monitoring agent can also authorise the sale of the receivables, the closure of debt positions, and the payment of additional costs and expenses related to recovery activities. The representative of noteholders can authorise the replacement of the servicer upon a servicer termination event.

Back-up arrangements mitigate servicing disruption risk

5.2.4. Servicer termination events

Securitisation Services S.p.A. would step in as substitute servicer in the event of a servicer termination event, performing the master servicing activities and would also help to appoint a suitable permanent replacement.

A servicer termination event includes insolvency; failure to pay due and available amounts to the issuer within two business days; failure to deliver or late delivery of a half-yearly report; unremedied breach of obligations; unremedied breach of representation and warranties; occurrence of a servicer underperformance termination event; and no longer being legally eligible to perform obligations under the servicing agreement. Were any of these events to occur, a back-up would take over the master servicing activities.

Cash reserve protects liquidity of the senior noteholders

5.3. Liquidity protection

A cash reserve will be funded at closing through a limited-recourse loan provided by Banca Nazionale del Lavoro S.p.A.

The cash reserve will amortise with no floor until class A note is redeemed or the transaction reaches legal maturity. The target cash reserve amount at each payment date will be equal to 4.0% of the total outstanding balance of class A notes at the previous payment date.

The cash reserve is available to cover any shortfalls in interest payments on the class A notes as well as any items senior to them in the priority of payments, provided that the GACS guarantee is not implemented. Following the implementation of the GACS guarantee, any liquidity shortfalls will be covered primarily by the guarantor, with the cash reserve mainly covering for the time between the draw on the guarantee and the actual payment.

Class B will not benefit from liquidity protection.

5.4. Interest rate hedge

Due to the non-performing nature of the securitised portfolio, the issuer will not receive regular cash flows and the collections will not be linked to any defined interest rate. On the liability side, the issuer will pay a floating coupon on the notes, defined as six-month Euribor plus a 0.6% fixed margin on the class A.

Interest rate risk is mitigated by a hedging

An interest rate cap agreement (with BNP Paribas as the interest cap provider, rated by Scope as AA-/S-1+) partially mitigates the risk of increased liabilities on the class A notes due to a rise in Euribor (see Figure 21). The base rate is partially hedged through an interest rate cap agreement with a cap strike of 0.4% from the fourth interest payment date, 0.8% from January 2022, 1.0% from July 2022, 1.3% from January 2023, 1.5% from July 2023, 2.0% from January 2024, and 2.5% from July 2024 until January 2027. Under the agreement, the SPV receives the difference between six-month Euribor and the cap strike, following a predefined notional schedule.

Cap notional does not fully mitigate interest rate risk

The cap notional schedule is not fully aligned with our expected class A amortisation profile (see Figure 22). A delay in recoveries beyond our stressed recovery timing vector would increase interest rate risk exposure, as it would widen the gap between the transaction's interest rate cap notional amount and the class A notes' outstanding principal. The cap on the Euribor component on the class A notes mitigates interest rate risk stemming from a delay in collections. For the class A notes analysis, we stressed the Euribor forward curve, as shown in Figure 21.

Figure 21: Interest rate cap class A

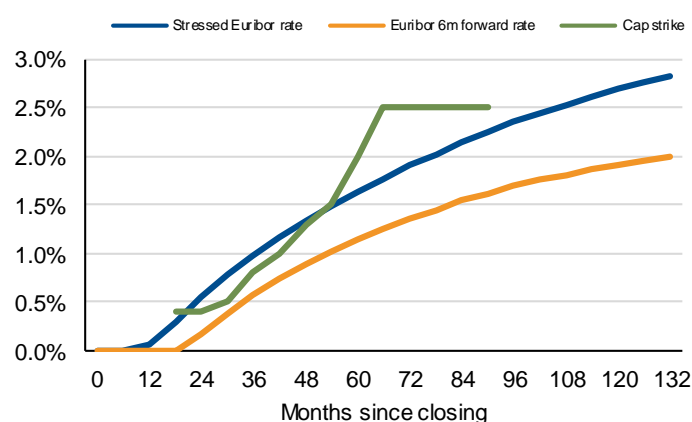
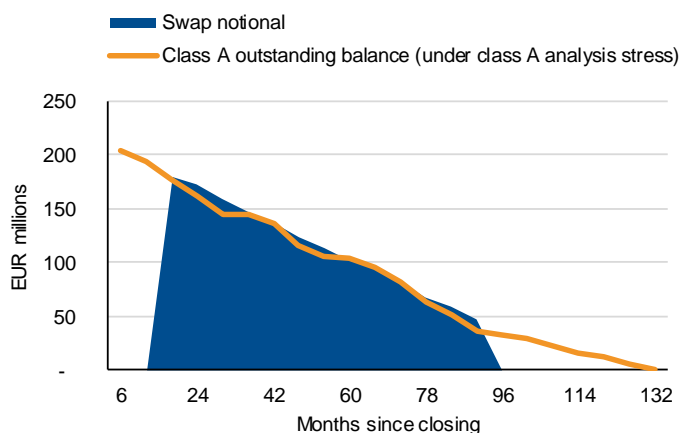


Figure 22: Cap notional vs outstanding class A notes



Sources: Transaction documents, Bloomberg and Scope Ratings

The cash flow analysis considers the structural features of the transaction

6. Cash flow analysis and rating stability

We analysed the transaction's specific cash flow characteristics. Asset assumptions were captured through rating-conditional gross recovery vectors. The analysis captures the capital structure, an estimate of legal costs equivalent to 9% of gross collections, servicing fees as described in section 5.2, and estimated issuer senior fees of EUR 285,000 (incl. VAT) annually. We took into account the reference rate payable on the notes, considering the cap rates and swap terms described in the previous section.

Scope's ratings reflect expected losses over the instrument's weighted average life

The BBB+ rating assigned to the class A notes reflects the expected losses over the instrument's weighted average life commensurate with the idealised expected loss table in our General Structured Finance Ratings Methodology.

We tested the resilience of the ratings against deviations from expected recovery rates and recovery timing. This analysis has the sole purpose of illustrating the sensitivity of the

ratings to input assumptions and is not indicative of expected or likely scenarios. We tested the sensitivity of the analysis to deviations from the main input assumptions: i) recovery rate level; and ii) recovery timing.

For class A, the following shows how the results change compared to the assigned credit rating in the event of:

- a decrease in secured and unsecured recovery rates by 10%, minus two notches.
- an increase in the recovery lag by one year, minus one notch.

7. Sovereign risk

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems due to Italy's hypothetical exit from the eurozone are not material for the notes' rating.

For more insight into our fundamental analysis on the Italian economy, please refer to the rating report on the Republic of Italy, dated 30 June 2018.

8. Counterparty risk

In our view, none of the counterparty exposures constrain the ratings achievable by this transaction. We factored in counterparty replacement triggers implemented in the transaction and relied on publicly available ratings and Scope's rating of BNP Paribas SA, the parent of BNP Paribas Securities Services. We also considered eligible investment criteria in the transaction documents for cash amounts held by the issuer.

The transaction is mainly exposed to counterparty risk from the following counterparties: i) the originators, regarding representations and warranties and the eventual payments that may be made by the borrowers; ii) Prelios Credit Servicing S.p.A. as servicer; iii) Securitisation Services S.p.A. as back-up servicer, monitoring agent, representative of noteholders, calculation agent and corporate servicer; iv) BNP Paribas Securities Services as account bank, paying agent, cash manager and agent bank; and v) BNP Paribas as the interest rate cap provider.

The account bank must have a minimum short-term and long-term rating of S-3 and BB if rated by Scope. Otherwise, it will be replaced within 45 days. The cap counterparty must have a minimum long-term rating of BB by Scope.

8.1. Servicer disruption risk

A servicer disruption event may have a negative impact on the transaction's performance. The transaction incorporates servicer monitoring as well as back-up and replacement arrangements in order to mitigate operational disruption (see section 5.2).

8.2. Commingling risk

Commingling risk is limited, as debtors will be instructed to pay directly into an account held in the name of the issuer. In limited cases where the servicer has received payments from a debtor, the servicer would transfer the amounts within the 10th business day of the calendar month immediately following the month of the payment reconciliation.

8.3. Claw-back risk

The seller has provided: i) a 'good standing' certificate from the Chamber of Commerce; ii) a solvency certificate signed by a representative duly authorised; and iii) a certificate from the bankruptcy court (tribunale civile – sezione fallimentare) confirming that the originator is not subject to any insolvency or similar proceedings. This mitigates claw-back risk, as the issuer should be able to prove it was unaware of the seller's insolvency as of the transfer date.

No mechanistic cap

Counterparty risk does not limit the transaction's rating

Limited commingling risk

Limited claw-back risk

Assignments of receivables made under the Italian Securitisation Law are subject to claw-back in the following events:

- (i) pursuant to article 67, paragraph 1, of the Italian Bankruptcy Law, if the bankruptcy declaration of the relevant originator is made within six months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price exceeds their value by more than 25% and the issuer cannot prove it was unaware of the originator's insolvency, or
- (ii) pursuant to article 67, paragraph 2, of the Italian Bankruptcy Law, if the adjudication of bankruptcy of the relevant originator is made within three months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price does not exceed their value by more than 25% and the originator's insolvency receiver can prove the issuer was aware of the originator's insolvency.

Representations and warranties limited by time and amount

8.4. Enforcement of representations and warranties

The issuer will rely on the representations and warranties, limited by time and amount, provided by the originators in the transfer agreements. If a breach of a representation and warranty materially and adversely affects a loan's value, the originators may be obliged to indemnify the issuer for damages within 20 business days of the notification.

However, the above-mentioned guarantee is enforceable by the issuer only within 24 months after the date the transfer agreement was entered into. The total indemnity amount will be capped to a maximum of 5% of the portfolio purchase price. Furthermore, the indemnity amounts will be subject to a deductible of EUR 400,000 on a portfolio basis, and EUR 5,000 on a single-loan basis. The indemnity limit is significantly below market average, which is between 20% and 30%.

9. Legal structure

9.1. Legal framework

The transaction documents are governed by Italian Law, whereas English Law governs the interest cap agreement and the deed of charge.

The transaction is fully governed by the terms in the documentation and any changes are subject to the risk-takers' consent, with the most senior noteholders at the date of the decision having a superior voting right.

9.2. Use of legal opinions

We had access to the legal opinions produced for the issuer, which provide comfort on the legally valid, binding and enforceable nature of the contracts.

10. Monitoring

We will monitor this transaction based on performance reports as well as other public information. The ratings will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details of the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

11. Applied methodology

For the analysis of the transaction we applied our Non-Performing Loan ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, both available on www.scoperatings.com.

Transaction documents governed by Italian and English law

Continuous rating monitoring



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